

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | |
|---|--------------------------------|--|--------------------------|
| Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name City of Keego Harbor | County Oakland |
| Audit Date 6/30/05 | Opinion Date 9/28/05 | Date Accountant Report Submitted to State: 11/1/05 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

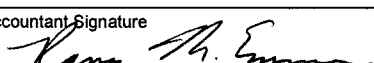
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | ✓ | | |
| Reports on individual federal financial assistance programs (program audits). | | | ✓ |
| Single Audit Reports (ASLGU). | | | ✓ |

| | | | |
|---|--|-------------------------|--------------------|
| Certified Public Accountant (Firm Name) Post, Smythe, Lutz and Ziel LLP | | | |
| Street Address 1034 W. Ann Arbor Trail | | City Plymouth | State MI |
| | | ZIP 48170 | |
| Accountant Signature  | | Date 11/1/05 | |

CITY OF KEEGO HARBOR
Oakland County, Michigan

AUDITED FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2005

CITY OF KEEGO HARBOR
For the Year Ended June 30, 2005

Table of Contents

INTRODUCTORY SECTION

Table of Contents

FINANCIAL SECTION

Page

| | |
|--|-------|
| Independent Auditor's Report | 1-2 |
| Management's Discussion and Analysis | 3-8 |
| Basic Financial Statements: | |
| Government Wide Financial Statements: | |
| Statement of Net Assets | 9 |
| Statement of Activities | 10 |
| Fund Financial Statements: | |
| Balance Sheet – Governmental Funds | 11 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds..... | 12 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 13 |
| Fiduciary Fund – Statement of Assets and Liabilities | 14 |
| Notes to Financial Statements | 15-31 |
| Required Supplementary Information: | |
| Defined Benefit Pension Plans - Trend Information | 32 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – General Fund | 33-34 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Major Street Fund | 35 |
| Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – TIFA Fund | 36 |

CITY OF KEEGO HARBOR
For the Year Ended June 30, 2005

Table of Contents

FINANCIAL SECTION

Page

Other Supplementary Information:

Combining Balance Sheet – Nonmajor Governmental Funds 37-38

Combining Statement of Revenues, Expenditures and Changes in
Fund Balance – Nonmajor Governmental Funds 39-40

FINANCIAL SECTION

POST, SMYTHE, LUTZ AND ZIEL LLP

Certified Public Accountants

PLYMOUTH

Dennis M. Siegner, C.P.A., C.V.A.
David R. Williamson, C.P.A.
Jane F. Wang, C.P.A.
Joseph N. Elder, C.P.A.
Rana M. Emmons, C.P.A.

**1034 W. ANN ARBOR TRAIL
PLYMOUTH, MICHIGAN 48170-1502**

**TELEPHONE: (734) 453-8770
FAX: (734) 453-0312**

WAYNE

Frank W. Smythe, C.P.A.
Ronald H. Traskos, C.P.A.
Kathy Billings, C.P.A., C.V.A.

Marty C. Morrison, C.P.A.
Jennifer A. Galofaro, C.P.A., C.V.A.
Susan H. Bertram, C.P.A.
Brian V. Kluger, C.P.A.

Sharon Walz Duckworth, C.P.A.
Cari A. Ford, C.P.A.
Wendy Leung Lee, C.P.A., C.V.A.
Therese Mulholland, C.P.A.

Independent Auditor's Report

September 28, 2005

To the Honorable Mayor and
Members of the City Council
City of Keego Harbor, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Keego Harbor's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Keego Harbor as of June 30, 2005, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

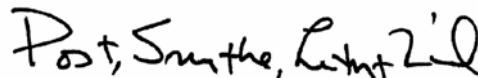
The management's discussion and analysis and the defined benefit pension plans-trend information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

Honorable Mayor and Members of the
City Council
City of Keego Harbor, Michigan

We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on them.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Keego Harbor's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully,

A handwritten signature in black ink that reads "Post, Smythe, Lutz & Ziel". The signature is written in a cursive, flowing style.

POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Management's Discussion and Analysis

Overview of the Financial Statements

The City's annual report consists of this analysis (management's discussion and analysis), government-wide financial statements, fund financial statements, notes to the financial statements, required supplemental information, and other supplemental information.

The government-wide financial statements are designed to provide a broad overview of the City's finances. The government-wide financial statements are presented on a full accrual basis of accounting, with an emphasis on measuring all economic resources and not just current financial resources, as measured in the individual fund statements. Two government-wide statements are provided.

One government-wide statement, the statement of net assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Increases or decreases of net assets from period to period provide useful information on the direction of the City's financial position over time.

The other government-wide statement, the statement of activities, provides information on how the government-wide net assets changed during the fiscal year. This statement provides information on income, expenses, and other increases or decreases in net assets.

Following the government-wide statements, individual fund financial statements are provided for the City's major funds with one column provided for nonmajor funds. These statements are grouped into governmental funds, which account for the cost of providing governmental-type services such as public safety and public works; and fiduciary funds, which account for assets held for outside parties.

Reconciliation between the individual fund statements and the government-wide financial statements is provided following the individual fund statements. The differences between the statement of net assets and the fund-based balance sheet are primarily related to inclusion of capital assets and long-term liabilities in the government-wide statement of net assets, which are not included in the fund-based balance sheet. The differences between the statement of activities and the statement of revenues, expenditures, and changes in fund balances primarily relate to the timing of reporting capital outlays and debt principal payments in the fund statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest, and accrued employee leave time.

Financial Position and Results of Operation for the City as a Whole

The following table shows in a condensed format, the net assets of the City's governmental activities as of June 30, 2005:

City of Keego Harbor - Net Assets

| | <u>Governmental Activities</u> | |
|--|--------------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> |
| Current and other assets | \$ 3,452,089 | \$ 4,127,407 |
| Capital Assets | <u>1,165,261</u> | <u>319,675</u> |
| Total Assets | <u>4,617,350</u> | <u>4,447,082</u> |
| | | |
| Long-term liabilities outstanding | 1,689,802 | 1,707,428 |
| Other liabilities | <u>832,505</u> | <u>548,840</u> |
| Total Liabilities | <u>2,522,307</u> | <u>2,256,268</u> |
| | | |
| Net Assets: | | |
| Invested in capital assets, net of related debt | 408,111 | 319,675 |
| Restricted | 1,516,907 | 1,171,413 |
| Unrestricted | <u>170,025</u> | <u>699,726</u> |
| Total Net Assets | <u>\$ 2,095,043</u> | <u>\$ 2,190,814</u> |

The following table shows the changes of the net assets during the year ended June 30, 2005:

City of Keego Harbor - Change in Net Assets

| | Governmental Activities | |
|---------------------------------------|-------------------------|-----------------------|
| | 2005 | 2004 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | \$ 404,093 | \$ 329,075 |
| Operating Grants & Contributions | 183,889 | 161,113 |
| Capital Grants & Contributions | 164,412 | 48,764 |
| General Revenues: | | |
| Property Taxes | 1,346,670 | 1,256,626 |
| State Shared Revenues | 258,767 | 259,304 |
| Franchise Fees | 28,852 | 21,838 |
| Unrestricted Investment Earnings | 95,678 | 28,896 |
| Miscellaneous | - | 17,830 |
| Total Revenues | <u>2,482,361</u> | <u>2,123,446</u> |
| Expenses: | | |
| General Government | 699,601 | 548,714 |
| Public Safety | 1,104,364 | 1,001,144 |
| Public Works | 571,950 | 857,492 |
| Community Development | 51,478 | 109,038 |
| Recreation and Cultural | 79,939 | 85,700 |
| Interest on Long-Term Debt | 70,800 | 46,531 |
| Total Expenses | <u>2,578,132</u> | <u>2,648,619</u> |
| Change in Net Assets before Transfers | (95,771) | (525,173) |
| Special Item-Transfer | <u>-</u> | <u>(842,615)</u> |
| Change in Net Assets | <u>\$ (95,771)</u> | <u>\$ (1,367,788)</u> |

The City had a decrease of \$95,771 in net assets in its governmental activities for the fiscal year ended June 30, 2005. This is explained by reviewing the expense side of the activities: Under General Government, the City incurred an unexpected charge for GASB 34 audit requirements of \$26,255; under Public Safety, the increase in payments to the West Bloomfield Fire Department was \$35,101; and the increase in interest in long term debt was attributable to the first year of TIFA bond repayment, adding \$52,680.

Governmental Activities

Over the last few years, the City has experienced steady growth in tax revenues which have been capped by State statute since 1994 at the lesser of 5 percent or the rate of inflation.

General Fund expenditures in 2005 exceeded revenue by \$308,738, which compares to the deficit in 2004 of \$187,593. The significant shortfall between expenditures and revenue in 2005 had several contributing factors:

| | |
|----------|---|
| \$35,671 | Temporary city hall rent and increased utilities |
| \$7,602 | Environmental studies to track mold conditions in "old" city hall and DPW garage |
| \$27,000 | Revenue shortfall in Building Inspection Services compared to expenses |
| \$34,970 | Additional audit fees, of which \$28,825 is attributable to GASB 34 |
| \$6,419 | Additional street light utility bills |
| \$20,183 | Legal fees to address Police Department union arbitrations and other personnel issues |
| \$18,941 | Unemployment compensation charges mid-year |
| \$8,111 | Watershed consulting fees to comply with stormwater permit requirements |
| \$15,815 | Weed cutting services to be later reimbursed through property tax bills |
| \$7,715 | Reduction in State Shared Revenue |

Many of these issues have been addressed. The fee schedules continue to be adjusted to better cover actual costs; the City continues to prepare budgets based on more accurate budget history; the environmental problems that forced the move out of the City-owned facility was a one-time issue; most of the legal fees were due to a single and unusual police arbitration issue; likewise the unemployment costs were due to unusual activity; the watershed reporting requirements were not expected and the majority of the cost was attributed to preparing a comprehensive plan which will not be required this year. The weed cutting cost was incurred last year, but reimbursement occurs in the following years' property tax collections, and State Shared Revenue will not be reduced this year.

Staff will again present cost-cutting and revenue enhancing measures to the Council to increase the likelihood that the operating budget will not exceed revenues.

State-shared revenues, statutorily designated to support local community services, have historically accounted for approximately 20 percent of the City's general operating revenues. These funds have been partially captured by the State of Michigan for the last several years for use in funding State expenditures. This fiscal year, the City received \$7,700 less in State-shared revenues than in fiscal year 2004, for a total reduction of \$161,400 since fiscal year 2000. With a concerted effort to maximize the City's investment earnings in an environment of low interest rates, the City managed to earn \$17,338 from its General Fund deposits.

The City of Keego Harbor maintains a cash surplus sufficient to bridge any potential shortfalls in current year revenues or increases in ordinary but unanticipated current year expenditures. Prudent financial planning places the City in a sound financial position with adequate cash reserves. The combination of revenue shortfall and expenditure overages in fiscal year 2005 totaled \$308,738, which reduced the fund balance. Thus, whereby the City started the fiscal year with \$516,810 in fund balance, it was reduced to \$208,072 by year end. Clearly, this is a trend that cannot continue without threatening the City's financial position. As stated earlier, the City staff and Council are examining ways to stem the tide until new developments add to the property tax base.

The City's Funds

Our analysis of the City's major funds follows the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages.

Analysis of Individual Funds

Of the City's governmental funds, the General, Major Streets, TIFA Capital Improvement, Capital Projects, and TIFA Funds account for all significant expenditures.

The General Fund ended the fiscal year with a reduction to its fund balance in the amount of \$308,738. Major factors related to this reduction were discussed earlier.

Capital Assets

During fiscal year 2005, total capital asset additions were \$874,699, which included \$854,544 of the Cass Lake Road streetscape and street lighting project, paid for from bond proceeds in the TIFA Capital Improvement Fund.

Long-term Debt

At the end of the current fiscal year, the City had total bond debt outstanding of \$1,630,000. The City's total debt decreased by \$30,000 (2 percent) during the current fiscal year.

Economic Factors and Next Year's Budgets and Rates

At this writing, the City is looking forward to the completion of several very significant developments: 69 new single-family homes at the old soccer field (45 are sold and the entire development is expected to sell out by spring 2006), a 28,000 sq. ft. mixed-use development on Orchard Lake Road at Maddy Lane, and 20 single-family attached homes on Cass Lake Road (of which 11 units are sold). The combination of these new developments on the tax rolls will add about \$162,600 to the City's revenue between this year and next. Additional projects are slated for the City, but are within the TIFA District (new taxes are captured).

Keego Harbor is an under-developed small city that depends on growth in property values to offset growth in expenditures supported by taxes and to offset reductions in State-shared revenues. Property taxes account for 61 percent of General Fund revenues. Property tax value grew by 3 percent from fiscal 2004 to 2005. State-shared revenues, which dropped another \$7,715 in 2005, are set to remain stable this year, despite the financial condition and priorities of the State.

A strong economic development program will be essential to funding the City's public services in the future. In September 2005, the City received an important endorsement of its efforts, when it was granted the Main Street Oakland County designation. This multi-year program will provide guidance and technical assistance for the redevelopment of our downtown. The program brings proven results of more jobs, more investment, higher quality developments and reduced vacancies.

The City has budgeted for pension contributions, employee and retiree health care costs, and general insurance costs in the 2005-2006 fiscal year based on the best information known at the time. We are experiencing a 7 percent increase in health care and insurance costs.

The City has experienced no specific events which it believes will materially impact the finances of the City. However, certain long-term trends, such as capped property tax revenues and shrinking State-shared revenues, will have a direct impact on the City's ability to continue current service levels, unless the City aggressively seeks new redevelopment of its downtown and aging housing stock.

Contacting the City's Financial Management

This financial report is designed to provide accountability of our stewardship of the resources provided by our citizens, taxpayers, and customers and to provide financial information to the City's investors and creditors. If you have any questions about this report or need additional financial information, contact the City Manager or City Treasurer at City Hall, P.O. Box 665, Keego Harbor, Michigan 48320.

BASIC FINANCIAL STATEMENTS

CITY OF KEEGO HARBOR
Statement of Net Assets
Governmental Activities
June 30, 2005

ASSETS

| | |
|--|------------------|
| Cash and Cash Equivalents | \$ 2,478,505 |
| Restricted Assets - Cash | 642,850 |
| Receivables (net of allowance for uncollectibles): | |
| Taxes | 17,335 |
| Accounts | 114,874 |
| Due from Other Governmental Units | 114,095 |
| Prepaid Expenses | 84,430 |
| Capital Assets (Net of Accumulated Depreciation): | |
| Nondepreciable | 151,901 |
| Depreciable | 1,013,360 |
| Total Assets | <u>4,617,350</u> |

LIABILITIES

| | |
|---|------------------|
| Accounts Payable | 99,570 |
| Accrued Liabilities | 70,641 |
| Accrued Interest Payable | 17,807 |
| Due to Other Units | 468,052 |
| Deposits | 159,100 |
| Deferred Revenue | 17,335 |
| Noncurrent Liabilities: | |
| Bonds Payable, due within one year | 75,000 |
| Bonds Payable, due in more than one year | 1,555,000 |
| Compensated Absences, due within one year | 19,137 |
| Compensated Absences, due in more than one year | 40,665 |
| Total Liabilities | <u>2,522,307</u> |

NET ASSETS

| | |
|---|---------------------|
| Invested in Capital Assets, net of related debt | 408,111 |
| Restricted for: | |
| Streets and Highways | 705,180 |
| Debt Service | 146,753 |
| Capital Projects in TIFA | 655,503 |
| Beautification | 410 |
| Police Department Community Events | 4,355 |
| Police Department Drug Forfeiture | 2,849 |
| Carillon | 1,857 |
| Unrestricted | 170,025 |
| Total Net Assets | <u>\$ 2,095,043</u> |

CITY OF KEEGO HARBOR
Statement of Activities
For the Year Ended June 30, 2005

| Functions/Programs | Program Revenues | | | | Net (Expense) |
|--------------------------------------|------------------|----------------------|------------------------------------|----------------------------------|-----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Revenue and Changes in Net Assets |
| Governmental Activities: | | | | | |
| General Government | \$ 699,601 | \$ 90,248 | \$ 2,310 | \$ 10,774 | \$ (596,269) |
| Public Safety | 1,104,364 | 250,719 | 21,000 | - | (832,645) |
| Public Works | 571,950 | 34,843 | 148,248 | 153,638 | (235,221) |
| Community Development | 51,478 | 21,570 | 10,842 | - | (19,066) |
| Recreation and Cultural | 79,939 | 6,713 | 1,489 | - | (71,737) |
| Interest on Long-Term Debt | 70,800 | - | - | - | (70,800) |
| Total Governmental Activities | \$ 2,578,132 | \$ 404,093 | \$ 183,889 | \$ 164,412 | (1,825,738) |
| General Revenues: | | | | | |
| Property Taxes | | | | | 1,346,670 |
| State Shared Revenue | | | | | 258,767 |
| Franchise Taxes | | | | | 28,852 |
| Unrestricted Investment Earnings | | | | | 95,678 |
| Total General Revenues and Transfers | | | | | 1,729,967 |
| Change in Net Assets | | | | | (95,771) |
| Net Assets - Beginning | | | | | 2,190,814 |
| Net Assets - Ending | | | | | \$ 2,095,043 |

CITY OF KEEGO HARBOR
Balance Sheet
Governmental Funds
June 30, 2005

| | General Fund | Major Streets Fund | TIFA Fund | Capital Projects Fund | TIFA Capital Improvements Fund | Other Governmental Funds | Total Governmental Funds |
|---|-------------------|--------------------------|-------------------|-----------------------------|--------------------------------------|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | | | | | | |
| Cash and Cash Equivalents | \$ 257,588 | \$ 553,230 | \$ 819,765 | \$ 563,413 | \$ - | \$ 284,509 | \$ 2,478,505 |
| Restricted Assets - Cash | - | - | - | - | 642,850 | - | 642,850 |
| Receivables (net of allowance for uncollectibles): | | | | | | | |
| Taxes | 17,335 | - | - | - | - | - | 17,335 |
| Accounts | 114,874 | - | - | - | - | - | 114,874 |
| Due from Other Funds | - | - | - | - | - | 4,139 | 4,139 |
| Due from Other Units | 41,280 | 16,557 | - | - | 49,051 | 7,207 | 114,095 |
| Prepaid Expenditures | 84,430 | - | - | - | - | - | 84,430 |
| Total Assets | <u>\$ 515,507</u> | <u>\$ 569,787</u> | <u>\$ 819,765</u> | <u>\$ 563,413</u> | <u>\$ 691,901</u> | <u>\$ 295,855</u> | <u>\$ 3,456,228</u> |
| <u>LIABILITIES AND FUND BALANCE</u> | | | | | | | |
| Liabilities: | | | | | | | |
| Accounts Payable | \$ 60,359 | \$ 99 | \$ 1,500 | \$ 1,214 | \$ 36,398 | \$ - | \$ 99,570 |
| Accrued and Other Liabilities | 70,641 | - | - | - | - | - | 70,641 |
| Due to Other Funds | - | 4,139 | - | - | - | - | 4,139 |
| Due to Other Units | - | - | 468,052 | - | - | - | 468,052 |
| Deposits | 159,100 | - | - | - | - | - | 159,100 |
| Deferred Revenue | 17,335 | - | - | - | - | - | 17,335 |
| Total Liabilities | <u>307,435</u> | <u>4,238</u> | <u>469,552</u> | <u>1,214</u> | <u>36,398</u> | <u>-</u> | <u>818,837</u> |
| Fund Balances: | | | | | | | |
| Reserved for: | | | | | | | |
| Public Improvement | 7,178 | - | - | - | - | - | 7,178 |
| Prepaid Expenditures | 84,430 | - | - | - | - | - | 84,430 |
| Debt Service | - | - | - | - | - | 146,753 | 146,753 |
| Construction | - | - | - | - | 655,503 | - | 655,503 |
| Unreserved for: | | | | | | | |
| General Fund | 116,464 | - | - | - | - | - | 116,464 |
| Special Revenue Funds | - | 565,549 | 350,213 | - | - | 149,102 | 1,064,864 |
| Capital Project Funds | - | - | - | 562,199 | - | - | 562,199 |
| Total Fund Balances | <u>208,072</u> | <u>565,549</u> | <u>350,213</u> | <u>562,199</u> | <u>655,503</u> | <u>295,855</u> | <u>2,637,391</u> |
| Total Liabilities and Fund Balances | <u>\$ 515,507</u> | <u>\$ 569,787</u> | <u>\$ 819,765</u> | <u>\$ 563,413</u> | <u>\$ 691,901</u> | <u>\$ 295,855</u> | |

Amounts reported for governmental activities in the statement of net assets
are different because:

| | |
|---|---------------------|
| Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 1,165,261 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | <u>(1,707,609)</u> |
| Net Assets of Governmental Activities | <u>\$ 2,095,043</u> |

CITY OF KEEGO HARBOR
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

| | General | Major Streets Fund | TIFA Fund | Capital Projects Fund | TIFA Capital Improvements Fund | Other Governmental Funds | Total Governmental Funds |
|--|-------------------|--------------------------|-------------------|-----------------------------|--------------------------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | | |
| Property Taxes | \$ 1,190,175 | \$ - | \$ 102,322 | \$ - | \$ - | \$ 54,173 | \$ 1,346,670 |
| Licenses and Permits | 2,185 | - | - | - | - | - | 2,185 |
| Intergovernmental: | | | | | | | |
| Federal, State and Local | 293,602 | 102,363 | - | - | 140,000 | 45,885 | 581,850 |
| Charges for Services | 308,177 | - | - | - | - | - | 308,177 |
| Fines and Forfeitures | 23,985 | - | - | - | - | - | 23,985 |
| Franchise Fees | 28,852 | - | - | - | - | - | 28,852 |
| Interest | 17,338 | 11,570 | 18,963 | 23,520 | 20,649 | 3,638 | 95,678 |
| Other | 72,033 | 1,347 | - | 10,774 | - | 10,810 | 94,964 |
| Total Revenues | <u>1,936,347</u> | <u>115,280</u> | <u>121,285</u> | <u>34,294</u> | <u>160,649</u> | <u>114,506</u> | <u>2,482,361</u> |
| Expenditures | | | | | | | |
| Current: | | | | | | | |
| General Government | 604,374 | - | - | 30,510 | - | - | 634,884 |
| Public Safety | 1,094,856 | - | - | - | - | 646 | 1,095,502 |
| Community Development | 9,777 | - | - | - | - | - | 9,777 |
| Planning and Zoning | 41,701 | - | - | - | - | - | 41,701 |
| Public Works | 351,259 | 26,064 | 2,677 | - | - | 60,683 | 440,683 |
| Recreation and Cultural | 77,737 | - | - | - | - | - | 77,737 |
| Other | 52,880 | - | 109,051 | - | - | 3,630 | 165,561 |
| Debt Service: | | | | | | | |
| Principal | - | - | - | - | - | 30,000 | 30,000 |
| Interest and Other Charges | - | - | - | - | - | 67,605 | 67,605 |
| Capital Outlay | 20,155 | - | - | - | 854,544 | - | 874,699 |
| Total Expenditures | <u>2,252,739</u> | <u>26,064</u> | <u>111,728</u> | <u>30,510</u> | <u>854,544</u> | <u>162,564</u> | <u>3,438,149</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>(316,392)</u> | <u>89,216</u> | <u>9,557</u> | <u>3,784</u> | <u>(693,895)</u> | <u>(48,058)</u> | <u>(955,788)</u> |
| Other Financing Sources (Uses) | | | | | | | |
| Transfers In | 8,254 | - | - | - | - | 174,189 | 182,443 |
| Transfers Out | (600) | (25,591) | (147,498) | - | (500) | (8,254) | (182,443) |
| Total Other Financing Sources and Uses | <u>7,654</u> | <u>(25,591)</u> | <u>(147,498)</u> | <u>-</u> | <u>(500)</u> | <u>165,935</u> | <u>-</u> |
| Net Change in Fund Balances | (308,738) | 63,625 | (137,941) | 3,784 | (694,395) | 117,877 | (955,788) |
| Fund Balances - Beginning | <u>516,810</u> | <u>501,924</u> | <u>488,154</u> | <u>558,415</u> | <u>1,349,898</u> | <u>177,978</u> | <u>3,593,179</u> |
| Fund Balances - Ending | <u>\$ 208,072</u> | <u>\$ 565,549</u> | <u>\$ 350,213</u> | <u>\$ 562,199</u> | <u>\$ 655,503</u> | <u>\$ 295,855</u> | <u>\$ 2,637,391</u> |

CITY OF KEEGO HARBOR
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2005

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|--------------|
| Net change in fund balances - total governmental funds | \$ (955,788) |
|--|--------------|

| | |
|--|---------|
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period. | 845,586 |
|--|---------|

| | |
|--|--------|
| The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | 14,431 |
|--|--------|

| | |
|---|-------------------------|
| Change in net assets in governmental activities | <hr/> \$ (95,771) <hr/> |
|---|-------------------------|

CITY OF KEEGO HARBOR
Fiduciary Fund
Statement of Assets and Liabilities
June 30, 2005

| | |
|--------------------|----------------------------------|
| | Tax Collection Agency Fund |
| <u>ASSETS</u> | <hr/> |
| Cash | \$ 110,023 |
| | <hr/> |
| <u>LIABILITIES</u> | |
| Due to Other | \$ 110,023 |
| | <hr/> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Keego Harbor, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component unit, the City of Keego Harbor Tax Increment Financing Authority, an entity for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations.

The City of Keego Harbor Tax Increment Financing Authority is governed by a board that is appointed by the Keego Harbor City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and expand a road on behalf of the City's Major Streets Fund.

Jointly Governed Organization

The City is a member of the Tri-City Fire Department, which provides fire protection services to the residents of the City of Keego Harbor, the City of Sylvan Lake, and the City of Orchard Lake. The Tri-City Fire Department along with the participating communities have entered into an agreement with the West Bloomfield Township Fire Department to provide fire and emergency services. During the current year, the City contributed approximately \$194,250 to the Tri-City Fire Department. Complete financial statements for the Tri-City Fire Department can be obtained from the administrative offices at 3300 Orchard Lake Road, Orchard Lake, Michigan.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* shown on the government-wide financial statements are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenue*.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Government-Wide and Fund Financial Statements – Continued

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Governmental Funds

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund is a special revenue fund used to account for the repair, maintenance, and construction of the City's major streets as identified by the State of Michigan Department of Transportation.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation - Continued

The Capital Project Fund accounts for capital improvement, equipment purchases, and construction activity funded by general revenues of the City.

The Tax Increment Financing Authority Fund (TIFA) accounts for the financing of a road on behalf of the City's Major Streets Fund. The activity is approved by the TIFA Board.

The TIFA Capital Improvement Fund accounts for construction activity funded by the 2004 General Obligation Capital Improvement Bonds.

Additionally, the City reports the following fund types:

Special Revenue Funds are used to account for the proceeds of earmarked revenue or financing activities requiring separate accounting because of legal or regulatory provisions.

Debt Service Funds are used to account for the proceeds of principal, interest, and expenditures in connection with certain long-term debt obligations.

Agency Funds are used to account for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the City to invest in obligations of the U.S. Treasury, commercial paper of certain investment grades, and deposits of Michigan commercial banks. Investments for the City, as well as for its component units, are recorded at fair value.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans) or "advances to/from other funds" (i.e. non-current portion of interfund loans). All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

3. Restricted Assets

The City's remaining bond proceeds are set aside for various upcoming debt service payments. These amounts have been classified as restricted.

4. Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

5. Capital Assets

Capital assets, which include property, plant, equipment, vehicles and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight line method over the following estimated useful lives:

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D. Assets, Liabilities and Net Assets or Equity - Continued

5. Capital Assets - Continued

| <u>Assets</u> | <u>Years</u> |
|--------------------------------------|--------------|
| Buildings and Improvements | 25-40 |
| Furnishings, Fixtures, and Equipment | 10-40 |
| Vehicles | 10-20 |

6. Compensated Absences

In accordance with contracts negotiated with the various employee groups of the City, along with the City's employee policy manual, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the contracts. All sick and vacation pay is accrued when earned in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

7. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet And the Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this \$1,707,609 difference are as follows:

| | |
|----------------------------------|--------------------|
| General Obligation Bonds Payable | \$1,630,000 |
| Accrued Interest Payable | 17,807 |
| Compensated Absences Payable | <u>59,802</u> |
| | <u>\$1,707,609</u> |

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$845,586 difference are as follows:

| | |
|----------------------|------------------|
| Capital Outlay | \$874,699 |
| Disposal of Asset | (2,862) |
| Depreciation Expense | <u>(26,251)</u> |
| | <u>\$845,586</u> |

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this \$14,431 difference are as follows:

| | |
|--------------------------|------------------|
| Principal on G.O. Bonds | \$ 30,000 |
| Compensated Absences | (12,374) |
| Accrued Interest Payable | <u>(3,195)</u> |
| | <u>\$ 14,431</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The City is legally subject to the budgetary control requirements of the State of Michigan P.A. 621 of 1978 (Uniform Budgeting Act). The following is a summary of the requirements of this act:

- a. Budgets must be adopted for the General and Special Revenue Funds.
- b. Budgets must be balanced.
- c. Budgets must be amended as necessary.
- d. Public hearings must be held prior to adoption.
- e. Expenditures cannot exceed budget appropriations.
- f. Expenditures must be authorized by a budget appropriation prior to being incurred.

The City follows these procedures in establishing the budgetary data reflected in these financial statements:

1. The City Charter requires one regular council meeting per month. Not later than the regular meeting in May, a proposed operating budget must be submitted to the City Council for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them for the upcoming year.
2. A public hearing and adoption of the budget is required by the regular meeting in May.
3. Not later than the regular meeting in May, the tax rate must be set and the budget is legally enacted through passage of a budget resolution (general appropriation act).
4. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgets for these funds are prepared and adopted on a basis consistent with generally accepted accounting principles (GAAP). The General Fund budget is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level.
5. Budget appropriations lapse at year end.
6. The City Council may authorize supplemental appropriations (budget amendments) during the year. In fiscal year 2005, several budget amendments were made and are reflected in the financial statements.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

B. Compliance with P.A. 621 of 1978

1. Deficit Fund Balance

The City has no deficit fund balances as of June 30, 2005.

2. Excess of Expenditures Over Appropriations in Budgetary Funds

The budget for the General Fund is adopted at the activity level and the budgets for the Special Revenue Funds are adopted at the fund level. Expenditures in excess of budget appropriations are as follows:

| | <u>Final Budget</u> | <u>Actual</u> | <u>Excess Expenditures Over Appropriations</u> |
|------------------------|-------------------------|---------------|--|
| General Fund: | | | |
| City Manager | \$123,194 | \$125,521 | \$ 2,327 |
| Elections | 3,359 | 3,663 | 304 |
| Assessing | 22,645 | 23,249 | 604 |
| Clerk | 72,679 | 75,699 | 3,020 |
| Information Technology | 10,470 | 10,848 | 378 |
| Finance/Treasurer | 95,402 | 100,549 | 5,147 |
| Building and Grounds | 107,749 | 117,118 | 9,369 |
| Police | 669,777 | 674,479 | 4,702 |
| Inspection Services | 214,599 | 226,127 | 11,528 |
| CDBG | 7,998 | 9,777 | 1,779 |
| Planning | 21,430 | 33,061 | 11,631 |
| Zoning | 7,575 | 8,640 | 1,065 |
| Public Works | 303,822 | 309,028 | 5,206 |
| Street Lighting | 39,000 | 42,231 | 3,231 |
| Recreation | 7,837 | 10,467 | 2,630 |
| Other Functions | 12,330 | 52,880 | 40,550 |
| Capital Outlay | - | 20,155 | 20,155 |
| Major Street Fund | 25,327 | 26,064 | 737 |
| Local Street Fund | 57,454 | 58,269 | 815 |
| TIFA Fund | 149,174 | 259,226 | 110,052 |
| Beautification Fund | 100 | 2,414 | 2,314 |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

C. Public Act 245 of 1999 Compliance

In accordance with the State Construction Code Act, Public Act 245 of 1999, the City must account for cumulative revenues over or under expenditures generated by the City's building department from January 1, 2000 and forward.

The cumulative amounts as of June 30, 2005 are as follows:

| | |
|---------------------------------------|---------------------|
| Cumulative Shortfall at June 30, 2004 | \$ <u>(63,656)</u> |
| Fees Collected in Fiscal Year 2005 | 199,119 |
| Expenditures in Fiscal Year 2005 | <u>(226,127)</u> |
| Revenues Over (Under) Expenditures | <u>(27,008)</u> |
| Cumulative Shortfall at June 30, 2005 | \$ <u>(90,664)</u> |

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Under State law, the City is permitted to invest in deposits with Michigan commercial banks, savings and loans and credit unions, obligations of the U.S. Treasury, and corporate bonds and commercial paper with certain investment grades. Deposits (cash and certificates of deposit) are carried at cost which approximates market value.

The following information, as required by the Governmental Accounting Standards Board Statement number 40 is presented, regarding the City's deposits and investments:

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be recovered. Neither State law nor the City's investment policy requires consideration of custodial credit risk. As of June 30, 2005, the City's book balance of its deposits was \$3,231,028; the total book balance was \$3,231,378, due to \$350 in cash on hand. The bank balance was \$3,481,007 which was exposed to custodial credit risk, as follows:

| | |
|--------------------------------|-------------------------------|
| | <u>Bank</u> <u>Balance</u> |
| Insured by F.D.I.C. | \$ 793,626 |
| Uninsured and Uncollateralized | <u>2,687,381</u> |
| Total | <u>\$3,481,007</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

A. Deposits and Investments - Continued

A reconciliation of cash to the accompanying financial statements follows:

| | |
|---------------------------|--------------------|
| Statement of Net Assets: | |
| Cash and Cash Equivalents | \$2,478,505 |
| Restricted Assets-Cash | 642,850 |
| Fiduciary Fund: | |
| Cash | <u>110,023</u> |
| Total | <u>\$3,231,378</u> |

Credit Risk. State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not further limit its investment choices.

Interest Rate Risk. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City's deposits and investments consisted of the following:

| | |
|--|--------------|
| Cash-Demand Deposit Accounts | \$ 113,068 |
| Cash-Certificates of Deposits-Less than one year | \$ 1,027,796 |
| Cash-Certificates of Deposits-More than one year | \$ 195,944 |
| Cash-Money Market Accounts (Share price=\$1) | \$ 1,028,724 |
| Cash-Pooled Funds (Share price=\$1) | \$ 1,115,475 |

Concentration of Credit Risk. The City's investment policy places no limit on the amount the City may invest in any one issuer. The City does not have more than 5% of its total investments in any single issuer.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

B. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

| <u>Governmental Activities:</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|--------------------------------------|------------------------------|-------------------|-------------------|---------------------------|
| Capital Assets, not depreciated: | | | | |
| Land | \$ 151,901 | \$ - | \$ - | \$ 151,901 |
| Capital Assets, being depreciated: | | | | |
| Infrastructure | - | 854,544 | - | 854,544 |
| Building and Improvements | 152,057 | - | (57,236) | 94,821 |
| Furnishings, Fixtures, and Equipment | 129,350 | 13,455 | - | 142,805 |
| Vehicles | 146,184 | 6,700 | - | 152,884 |
| | <u>427,591</u> | <u>874,699</u> | <u>(57,236)</u> | <u>1,245,054</u> |
| Less: Accumulated Depreciation: | | | | |
| Building and Improvements | (111,044) | (2,533) | 54,374 | (59,203) |
| Furnishings, Fixtures, and Equipment | (69,926) | (9,890) | - | (79,816) |
| Vehicles | (78,847) | (13,828) | - | (92,675) |
| | <u>(259,817)</u> | <u>(26,251)</u> | <u>54,374</u> | <u>(231,694)</u> |
| Governmental Activities | | | | |
| Capital Assets, net | \$ <u>319,675</u> | \$ <u>848,448</u> | \$ <u>(2,862)</u> | \$ <u>1,165,261</u> |

Depreciation expense was charged on the Statement of Activities as follows:

| | |
|-------------------------|------------------|
| General Government | \$ 514 |
| Public Safety | 1,319 |
| Public Works | 22,216 |
| Recreation and Cultural | 2,202 |
| | <u>\$ 26,251</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

C. Interfund Receivables, Payables and Transfers

1. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2005, is as follows:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-----------------|
| Local Street Fund | Major Street Fund | <u>\$ 4,139</u> |

2. Interfund Transfers

| <u>Transfers Out:</u> | <u>Transfers In:</u> | <u>Total</u> |
|--------------------------|------------------------|------------------|
| General Fund | Beautification Fund | \$ 600 |
| Major Street Fund | Local Street Fund | 25,591 |
| TIFA Fund | TIFA Debt Service Fund | 147,498 |
| TIFA Capital Improv Fund | Beautification Fund | 500 |
| Garbage Collection Fund | General Fund | <u>8,254</u> |
| | | <u>\$182,443</u> |

D. Long-Term Debt

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2005:

| | <u>Interest Rates</u> | <u>Balance July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2005</u> | <u>Due Within One Year</u> |
|--------------------------------|---------------------------|-------------------------------------|------------------|-------------------|--------------------------------------|------------------------------------|
| Governmental Activities: | | | | | | |
| General Obligation Bonds: | | | | | | |
| Tri-City Fire Station Bonds | | | | | | |
| Issue Amount: \$460,000 | | | | | | |
| Maturing through 2009 | 5.25% | \$ 260,000 | \$ - | \$ 30,000 | \$ 230,000 | \$ 40,000 |
| Capital Improvement Bonds | | | | | | |
| Issue Amount: \$1,400,000 | | | | | | |
| Maturing through 2022 | 3.50-4.60% | <u>1,400,000</u> | <u>-</u> | <u>-</u> | <u>1,400,000</u> | <u>35,000</u> |
| Total General Obligation Bonds | | <u>1,660,000</u> | <u>-</u> | <u>30,000</u> | <u>1,630,000</u> | <u>75,000</u> |
| Compensated Absences | | <u>47,428</u> | <u>12,374</u> | <u>-</u> | <u>59,802</u> | <u>-</u> |
| | | <u>\$ 1,707,428</u> | <u>\$ 12,374</u> | <u>\$ 30,000</u> | <u>\$ 1,689,802</u> | <u>\$ 75,000</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

D. Long-Term Debt - Continued

The annual debt service requirements to maturity for general obligation bonds outstanding as of June 30, 2005 are as follows:

| <u>Year Ended</u> | <u>Governmental Activities</u> | |
|-------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 75,000 | \$ 70,180 |
| 2007 | 85,000 | 66,855 |
| 2008 | 100,000 | 62,824 |
| 2009 | 110,000 | 58,130 |
| 2010 | 120,000 | 52,974 |
| 2011-2015 | 390,000 | 214,850 |
| 2016-2020 | 500,000 | 125,800 |
| 2021-2022 | 250,000 | 17,710 |
| | <u>\$ 1,630,000</u> | <u>\$ 669,323</u> |

E. Reserved Fund Balance

A detailed description of fund balance reservations and designations (for all governmental fund types) at June 30, 2005, is presented below:

| | <u>General Fund</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Project</u> |
|----------------------|-------------------------|----------------------------|-------------------------|----------------------------|
| Reserved for: | | | | |
| Public Improvement | \$ 7,178 | \$ - | \$ - | \$ - |
| Prepaid Expenditures | 84,430 | - | - | - |
| Debt Service | - | - | 146,753 | - |
| Construction | - | - | - | 655,503 |
| Total Reserved | <u>91,608</u> | <u>-</u> | <u>146,753</u> | <u>655,503</u> |
| Unreserved: | | | | |
| Undesignated | <u>116,464</u> | <u>1,064,864</u> | <u>-</u> | <u>562,199</u> |
| Total Fund Balance | <u>\$ 208,072</u> | <u>\$ 1,064,864</u> | <u>\$ 146,753</u> | <u>\$ 1,217,702</u> |

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

IV. DETAILED NOTES ON ALL FUNDS - Continued

F. Property Taxes

Property taxes are assessed as of each December 31. The City tax levy is billed on July 1 of the following year. Taxes are considered delinquent on July 31, at which time the applicable property is subject to lien and penalty and interest is assessed. The maximum authorized operating levy for the City is 20 mills. The City's tax levy for the 2004 tax roll is as follows (tax rate per \$1,000 of assessed valuation):

| | |
|-------------------|----------------------|
| General Operating | 13.2122 |
| Debt - Voted | <u>.6740</u> |
| Total | <u>13.8862</u> mills |

V. OTHER INFORMATION

A. Employee Retirement Systems and Plans

1. Municipal Employees Retirement System Defined Benefit Plan

a. Plan Description

The City contributes to the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple employer retirement system that covers all eligible full time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by a certain percentage based on the benefit program in effect as of the date of termination of membership times the final average compensation (FAC). The most recent period for which actuarial data was available was for the actuarial valuation as of December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of the State of Michigan (MSA 5.333(a); MCLA 46.12(a)). MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Council. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

V. OTHER INFORMATION - Continued

A. Employee Retirement Systems and Plans - Continued

1. Municipal Employees Retirement System Defined Benefit Plan - Continued

b. Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy. The City is required to contribute at an actuarially determined rate; the current rate was a percentage of annual compensation at December 31, 2002 as follows:

| | |
|---------------|--------|
| General | 14.81% |
| Police - Fire | 16.48% |

c. Annual Pension Cost

During the fiscal year ended June 30, 2005, the City's contributions totaling \$96,472 and employees' contributions totaling \$16,265 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2002.

The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

| <u>Trend Information</u> | | | | |
|---|---|--|--|---|
| <u>Fiscal Year</u> <u>Ended</u> <u>June 30,</u> | <u>Valuation</u> <u>Date</u> <u>Dec. 31</u> | <u>Annual</u> <u>Pension</u> <u>Cost (APC)</u> | <u>Percentage</u> <u>of APC</u> <u>Contributed</u> | <u>Net</u> <u>Pension</u> <u>Obligation</u> |
| 2002 | 1999 | 31,551 | 100% | -0- |
| 2003 | 2000 | 49,576 | 100% | -0- |
| 2004 | 2001 | 96,164 | 100% | -0- |
| 2005 | 2002 | 96,472 | 100% | -0- |

The information presented above was determined as part of the actuarial valuations at the dates indicated.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

V. OTHER INFORMATION - Continued

B. Post Retirement Health Care Benefits

The City provides health care insurance coverage to all eligible full-time employees who retire from the City, in accordance with labor contracts and City policy. Currently 2 retirees are covered by this plan. These benefits are expensed in the year paid, on a pay-as-you-go basis. Total expenditures were \$10,156 for the year ended June 30, 2005.

C. Risk Management

The City is a member of the Michigan Municipal Risk Management Authority for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of the pool loss reserve fund.

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City and the pools to which it belongs in any of the past three fiscal years.

D. Contingencies

1. Construction Commitments

The City and the Road Commission for Oakland County completed a project related to improvements made to Cass Lake Road. At year end, the final accounting for this project is not complete. The City has recorded a liability of approximately \$359,000 for the project based on its best estimate from information provided by the Road Commission for Oakland County.

2. Property Tax Appeals

Utility companies appealed tax assessments for 1997-2004, claiming that the State Tax Commission revised depreciation tables that were adopted in 1999 had retroactive effect. The City along with Oakland County has defended the action, but the case remains unsettled, as is the case statewide. The City has calculated and recorded a liability for the potential amount due to the utility companies of approximately \$41,232.

CITY OF KEEGO HARBOR
Notes to Financial Statements
June 30, 2005

V. OTHER INFORMATION - Continued

E. Subsequent Event

The City has been in discussions with the State Tax Commission regarding the amount of taxes captured by the TIFA from the local schools for the period 1994-2003. The State contends that a portion of funds that were captured by the TIFA were not eligible and needs to be refunded to the respective taxing units. In October 2005, the State determined this amount to be \$109,051, which has been recorded as a liability as of June 30, 2005 and has been subsequently paid by the City.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Required Supplementary Information – (Unaudited)
Defined Benefit Pension Plans – Trend Information
For the Year Ended June 30, 2005

Municipal Employees Retirement System
Schedule of Funding Progress

| <u>Actuarial</u> <u>Valuation</u> <u>Date</u> | <u>Actuarial</u> <u>Value of</u> <u>Assets</u> | <u>Actuarial</u> <u>Accrued</u> <u>Liability (AAL)</u> | <u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> | <u>Funded</u> <u>Ratio</u> | <u>Covered</u> <u>Payroll</u> | <u>UAAL as a</u> <u>Percent of</u> <u>Covered Payroll</u> |
|---|--|--|--|-------------------------------|----------------------------------|---|
| 12/31/01 | 1,261,021 | 1,472,387 | 211,366 | 86 | 528,156 | 40% |
| 12/31/02 | 1,278,011 | 1,550,351 | 272,340 | 82 | 555,463 | 49% |
| 12/31/03 | 1,390,051 | 2,027,587 | 637,536 | 69 | 567,030 | 112% |
| 12/31/04 | 1,529,043 | 2,266,651 | 737,608 | 67 | 582,755 | 127% |

Additional information as of December 31, 2004, the latest actual valuation, follows:

| | |
|-------------------------------|------------------------|
| Actuarial cost method | Entry age normal cost |
| Amortization method | Level percent |
| Remaining amortization period | 30 years |
| Asset valuation method | 5-year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 8% |
| Projected salary increases | 4.50% - 12.90% |
| Includes inflation at 4.5% | |
| Cost of living adjustments | None |

CITY OF KEEGO HARBOR
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

| | Budgeted Amounts | | | Variance with |
|-----------------------------|-------------------------|------------------|------------------|----------------------|
| | Original | Final | Actual | Final Budget |
| Revenues: | | | | |
| Property Taxes | \$ 1,193,765 | \$ 1,190,474 | \$ 1,190,175 | \$ (299) |
| Licenses and Permits | 4,540 | 2,320 | 2,185 | (135) |
| Intergovernmental - Federal | 12,915 | 12,915 | 10,842 | (2,073) |
| Intergovernmental - State | 269,380 | 270,576 | 269,067 | (1,509) |
| Intergovernmental - County | 19,750 | 17,750 | 13,693 | (4,057) |
| Charges for Services | 335,610 | 303,925 | 308,177 | 4,252 |
| Fines and Forfeitures | 15,950 | 24,135 | 23,985 | (150) |
| Franchise Fees | 22,000 | 28,852 | 28,852 | - |
| Interest | 13,500 | 16,000 | 17,338 | 1,338 |
| Other | 43,128 | 54,530 | 72,033 | 17,503 |
| Total Revenues | <u>1,930,538</u> | <u>1,921,477</u> | <u>1,936,347</u> | <u>14,870</u> |
| Expenditures: | | | | |
| General Government: | | | | |
| City Council | 13,165 | 10,874 | 9,713 | 1,161 |
| City Manager | 110,870 | 123,194 | 125,521 | (2,327) |
| Elections | 2,335 | 3,359 | 3,663 | (304) |
| Legal and Audit | 70,000 | 140,546 | 137,498 | 3,048 |
| Assessing | 22,645 | 22,645 | 23,249 | (604) |
| Clerk | 73,250 | 72,679 | 75,699 | (3,020) |
| Information Technology | 5,950 | 10,470 | 10,848 | (378) |
| Board of Review | 460 | 520 | 516 | 4 |
| Finance/Treasurer | 81,700 | 95,402 | 100,549 | (5,147) |
| Building and Grounds | 55,063 | 107,749 | 117,118 | (9,369) |
| Total General Government | <u>435,438</u> | <u>587,438</u> | <u>604,374</u> | <u>(16,936)</u> |
| Public Safety: | | | | |
| Police | 645,115 | 669,777 | 674,479 | (4,702) |
| Fire | 194,250 | 194,250 | 194,250 | - |
| Inspection Services | 230,610 | 214,599 | 226,127 | (11,528) |
| Total Public Safety | <u>1,069,975</u> | <u>1,078,626</u> | <u>1,094,856</u> | <u>(16,230)</u> |
| Community Development: | | | | |
| CDBG | <u>12,915</u> | <u>7,998</u> | <u>9,777</u> | <u>(1,779)</u> |
| Planning and Zoning: | | | | |
| Planning | 57,910 | 21,430 | 33,061 | (11,631) |
| Zoning | 8,005 | 7,575 | 8,640 | (1,065) |
| Total Planning and Zoning | <u>65,915</u> | <u>29,005</u> | <u>41,701</u> | <u>(12,696)</u> |
| Public Works: | | | | |
| Department of Public Works | 237,190 | 303,822 | 309,028 | (5,206) |
| Street Lighting | 34,000 | 39,000 | 42,231 | (3,231) |
| Total Public Works | <u>271,190</u> | <u>342,822</u> | <u>351,259</u> | <u>(8,437)</u> |

(Continued)

CITY OF KEEGO HARBOR
General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

| | <u>Budgeted Amounts</u> | | | <u>Variance with</u> |
|--------------------------------------|--------------------------------|---------------------|----------------------|-----------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Expenditures: (Continued) | | | | |
| Recreation and Cultural: | | | | |
| Parks | \$ 37,610 | \$ 41,738 | \$ 32,592 | \$ 9,146 |
| Recreation | 12,265 | 7,837 | 10,467 | (2,630) |
| Library | 34,700 | 34,678 | 34,678 | - |
| Total Recreation and Cultural | <u>84,575</u> | <u>84,253</u> | <u>77,737</u> | <u>6,516</u> |
| Other Functions: | | | | |
| Retiree Health Insurance | 12,330 | 12,330 | 11,325 | 1,005 |
| Tax Tribunals | - | - | 41,230 | (41,230) |
| Environmental Services | - | - | 325 | (325) |
| Total Other Functions | <u>12,330</u> | <u>12,330</u> | <u>52,880</u> | <u>(40,550)</u> |
| Capital Outlay | <u>-</u> | <u>-</u> | <u>20,155</u> | <u>(20,155)</u> |
| Total Expenditures | <u>1,952,338</u> | <u>2,142,472</u> | <u>2,252,739</u> | <u>(110,267)</u> |
| Excess (Deficiency) of | | | | |
| Revenues Over Expenditures | <u>(21,800)</u> | <u>(220,995)</u> | <u>(316,392)</u> | <u>(95,397)</u> |
| Other Financing Sources (Uses): | | | | |
| Operating Transfers In | 2,000 | 8,254 | 8,254 | - |
| Operating Transfers Out | <u>-</u> | <u>(600)</u> | <u>(600)</u> | <u>-</u> |
| Total Other Financing Sources (Uses) | <u>2,000</u> | <u>7,654</u> | <u>7,654</u> | <u>-</u> |
| Net Change in Fund Balance | (19,800) | (213,341) | (308,738) | (95,397) |
| Fund Balance - July 1 | <u>516,810</u> | <u>516,810</u> | <u>516,810</u> | <u>-</u> |
| Fund Balance - June 30 | <u>\$ 497,010</u> | <u>\$ 303,469</u> | <u>\$ 208,072</u> | <u>\$ (95,397)</u> |

CITY OF KEEGO HARBOR
Major Street Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

| | <u>Budgeted Amounts</u> | | | <u>Variance with</u> |
|--|--------------------------------|---------------------|----------------------|-----------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Revenues: | | | | |
| State | \$ 87,970 | \$ 86,970 | \$ 102,363 | \$ 15,393 |
| Interest | 2,400 | 9,500 | 11,570 | 2,070 |
| Other | 1,275 | 1,346 | 1,347 | 1 |
| Total Revenues | <u>91,645</u> | <u>97,816</u> | <u>115,280</u> | <u>17,464</u> |
| Expenditures: | | | | |
| Highways and Streets: | | | | |
| General Administration | 2,515 | 7,775 | 8,581 | (806) |
| Routine Maintenance | 13,540 | 5,998 | 5,794 | 204 |
| Traffic Services | 2,315 | 1,034 | 1,034 | - |
| Winter Maintenance | 12,430 | 10,520 | 10,655 | (135) |
| Total Expenditures | <u>30,800</u> | <u>25,327</u> | <u>26,064</u> | <u>(737)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 60,845 | 72,489 | 89,216 | 16,727 |
| Other Financing Uses: | | | | |
| Operating Transfers Out | <u>(8,800)</u> | <u>(19,438)</u> | <u>(25,591)</u> | <u>(6,153)</u> |
| Net Change in Fund Balance | 52,045 | 53,051 | 63,625 | 10,574 |
| Fund Balance - July 1 | <u>501,924</u> | <u>501,924</u> | <u>501,924</u> | <u>-</u> |
| Fund Balance - June 30 | <u>\$ 553,969</u> | <u>\$ 554,975</u> | <u>\$ 565,549</u> | <u>\$ 10,574</u> |

CITY OF KEEGO HARBOR
TIFA Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
For the Year Ended June 30, 2005

| | <u>Budgeted Amounts</u> | | | <u>Variance with</u> |
|--|--------------------------------|---------------------|----------------------|-----------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> |
| Revenues: | | | | |
| Property Taxes | \$ 64,111 | \$ 102,322 | \$ 102,322 | \$ - |
| Interest | 4,625 | 17,100 | 18,963 | 1,863 |
| Total Revenues | <u>68,736</u> | <u>119,422</u> | <u>121,285</u> | <u>1,863</u> |
| Expenditures: | | | | |
| Public Works | 14,511 | 1,176 | 2,677 | (1,501) |
| Other | - | - | 109,051 | (109,051) |
| Total Expenditures | <u>14,511</u> | <u>1,176</u> | <u>111,728</u> | <u>(110,552)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | 54,225 | 118,246 | 9,557 | (108,689) |
| Other Financing Uses: | | | | |
| Operating Transfers Out | <u>(54,225)</u> | <u>(147,998)</u> | <u>(147,498)</u> | <u>500</u> |
| Net Change in Fund Balance | - | (29,752) | (137,941) | (108,189) |
| Fund Balance - July 1 | <u>488,154</u> | <u>488,154</u> | <u>488,154</u> | <u>-</u> |
| Fund Balance - June 30 | <u>\$ 488,154</u> | <u>\$ 458,402</u> | <u>\$ 350,213</u> | <u>\$ (108,189)</u> |

OTHER SUPPLEMENTARY INFORMATION

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005

| | Special Revenue Funds | | | | |
|--|-----------------------|----------------|-----------------------|-------------------------------------|-----------------|
| | Local Street | Beautification | Garbage Collection | Police Dept. Community Events | Carillon |
| <u>Assets</u> | | | | | |
| Cash and Cash Equivalents | \$ 128,285 | \$ 410 | \$ - | \$ 7,204 | \$ 1,857 |
| Due from State | 7,207 | - | - | - | - |
| Due from Other Funds | 4,139 | - | - | - | - |
| Total Assets | <u>\$ 139,631</u> | <u>\$ 410</u> | <u>\$ -</u> | <u>\$ 7,204</u> | <u>\$ 1,857</u> |
| <u>Liabilities and Fund Balance</u> | | | | | |
| Liabilities | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund Balance: | | | | | |
| Reserved for Debt Service | - | - | - | - | - |
| Unreserved: | | | | | |
| Undesignated | 139,631 | 410 | - | 7,204 | 1,857 |
| Total Fund Balance | <u>139,631</u> | <u>410</u> | <u>-</u> | <u>7,204</u> | <u>1,857</u> |
| Total Liabilities and Fund Balance | <u>\$ 139,631</u> | <u>\$ 410</u> | <u>\$ -</u> | <u>\$ 7,204</u> | <u>\$ 1,857</u> |

Debt Service Funds

| <u>Fire</u> | | | |
|-------------------|------------------|-------------------|--|
| <u>G.O. Bonds</u> | <u>TIFA Debt</u> | <u>Total</u> | |
| \$ 52,320 | \$ 94,433 | \$ 284,509 | |
| - | - | 7,207 | |
| - | - | 4,139 | |
| <u>\$ 52,320</u> | <u>\$ 94,433</u> | <u>\$ 295,855</u> | |
| | | | |
| \$ - | \$ - | \$ - | |
| 52,320 | 94,433 | 146,753 | |
| - | - | 149,102 | |
| <u>52,320</u> | <u>94,433</u> | <u>295,855</u> | |
| <u>\$ 52,320</u> | <u>\$ 94,433</u> | <u>\$ 295,855</u> | |

CITY OF KEEGO HARBOR
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balance
For the Year Ended June 30, 2005

| | Special Revenue Funds | | | | |
|--|-----------------------|----------------|-----------------------|-------------------------------------|----------|
| | Local Street | Beautification | Garbage Collection | Police Dept. Community Events | Carillon |
| Revenues: | | | | | |
| Property Taxes | \$ - | \$ - | \$ - | \$ - | \$ - |
| State | 44,550 | - | - | 1,335 | - |
| Interest | 2,089 | - | - | - | - |
| Other | 2,977 | 336 | - | 7,426 | 71 |
| Total Revenues | 49,616 | 336 | - | 8,761 | 71 |
| Expenditures: | | | | | |
| Public Safety | - | - | - | 646 | - |
| Public Works | 58,269 | 2,414 | - | - | - |
| Community Events | - | - | - | 3,630 | - |
| Debt Service: | | | | | |
| Principal | - | - | - | - | - |
| Interest and Fees | - | - | - | - | - |
| Total Expenditures | 58,269 | 2,414 | - | 4,276 | - |
| Excess (Deficiency) of Revenues Over Expenditures | (8,653) | (2,078) | - | 4,485 | 71 |
| Other Financing Sources (Uses): | | | | | |
| Operating Transfers In | 25,591 | 1,100 | - | - | - |
| Operating Transfers Out | - | - | (8,254) | - | - |
| Total Other Financing Sources (Uses) | 25,591 | 1,100 | (8,254) | - | - |
| Net Change in Fund Balance | 16,938 | (978) | (8,254) | 4,485 | 71 |
| Fund Balance - July 1 | 122,693 | 1,388 | 8,254 | 2,719 | 1,786 |
| Fund Balance - June 30 | \$ 139,631 | \$ 410 | \$ - | \$ 7,204 | \$ 1,857 |

| <u>Debt Service Funds</u> | | |
|---------------------------|-------------------------|--------------------------|
| <u>Fire</u> | | |
| <u>G.O. Bonds</u> | <u>TIFA Debt</u> | <u>Total</u> |
| \$ 54,173 | \$ - | \$ 54,173 |
| - | - | 45,885 |
| 987 | 562 | 3,638 |
| - | - | 10,810 |
| <u>55,160</u> | <u>562</u> | <u>114,506</u> |
| - | - | 646 |
| - | - | 60,683 |
| - | - | 3,630 |
| 30,000 | - | 30,000 |
| <u>13,155</u> | <u>54,450</u> | <u>67,605</u> |
| <u>43,155</u> | <u>54,450</u> | <u>162,564</u> |
| <u>12,005</u> | <u>(53,888)</u> | <u>(48,058)</u> |
| - | 147,498 | 174,189 |
| - | - | (8,254) |
| - | <u>147,498</u> | <u>165,935</u> |
| 12,005 | 93,610 | 117,877 |
| <u>40,315</u> | <u>823</u> | <u>177,978</u> |
| \$ <u><u>52,320</u></u> | \$ <u><u>94,433</u></u> | \$ <u><u>295,855</u></u> |

POST, SMYTHE, LUTZ AND ZIEL LLP

Certified Public Accountants

PLYMOUTH

Dennis M. Siegner, C.P.A., C.V.A.
David R. Williamson, C.P.A.
Jane F. Wang, C.P.A.
Joseph N. Elder, C.P.A.
Rana M. Emmons, C.P.A.

**1034 W. ANN ARBOR TRAIL
PLYMOUTH, MICHIGAN 48170-1502**

**TELEPHONE: (734) 453-8770
FAX: (734) 453-0312**

WAYNE

Frank W. Smythe, C.P.A.
Ronald H. Traskos, C.P.A.
Kathy Billings, C.P.A., C.V.A.

Marty C. Morrison, C.P.A.
Jennifer A. Galofaro, C.P.A., C.V.A.
Susan H. Bertram, C.P.A.
Brian V. Kluger, C.P.A.

Sharon Walz Duckworth, C.P.A.
Cari A. Ford, C.P.A.
Wendy Leung Lee, C.P.A., C.V.A.
Therese Mulholland, C.P.A.

September 28, 2005

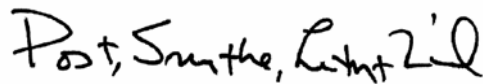
Honorable Mayor and City Council
City of Keego Harbor
Oakland County, Michigan

In planning and performing our audit of the City of Keego Harbor for the year ended June 30, 2005, we have considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiencies. The memorandum that accompanies this letter summarizes our comments and suggestions in these areas. This letter does not affect our report dated September 28, 2005, on the financial statements of the City of Keego Harbor.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with the City's management, and we will be pleased to discuss them in further detail at your convenience, to perform any additional studies or assist in their implementation.

Respectfully,



POST, SMYTHE, LUTZ and ZIEL LLP
Certified Public Accountants

Internal Controls

Currently, one person is responsible for payroll processing, which is accomplished through a third party payroll company. We recommend that the City Manager provide a more formal oversight to the payroll process by reviewing and approving each payroll register.

Accounts payable checks should be forwarded to check signers with appropriate supporting documentation. After signature, the checks should be stuffed and mailed by an employee independent of the cash disbursement function. They should not be returned to the accounts payable clerk for mailing.

The above items were discussed with City Management who have already implemented our recommendations.

Budget Amendments

The City's 2004/2005 budget was amended when necessary throughout the year, which is in accordance with the State Uniform Budgeting Act. However, at year end there were still amounts expended in excess of the amounts appropriated. The Uniform Budgeting Act requires that expenditures be authorized by a budget appropriation prior to the expenditure being incurred.

General Fund

The fund balance in the General Fund totaled \$208,072 at June 30, 2005. This amount represents 11% of the total General Fund revenues for fiscal year 2005. Typically, the General Fund fund balance is considered an operational reserve for both planned and unforeseen items. We recommend that the City maintain a General Fund unreserved fund balance of 15-20% of General Fund revenues, and that the City review the fiscal year 2005-2006 General Fund budget to determine if there are opportunities to improve the operational reserve balance.

In fiscal year 2006, the City Council has approved an operating transfer to the General Fund of \$160,000 from the Capital Improvement Fund which would increase the General Fund fund balance to 19% of total General Fund revenues.